

MINUTES OF THE REGULAR MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM BOARD

**HELD ON
October 17, 2003
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Karl Polen, Chairman, Arizona State Retirement System Board, called the meeting to order at 8:33 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call, Opening Remarks

Present: Mr. Karl Polen, Chairman
Mr. Norman Miller, Vice Chairman
Ms. Charlotte Borchert
Dr. Chuck Essigs
Dr. Keith Meredith
Mr. Carl Tenney
Mr. Steven Zeman

Excused: Mr. Jim Bruner
Mr. Lawrence Trachtenberg

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the September 19, 2003, Regular Meeting and Executive Session of the ASRS Board

Motion: Mr. Norman Miller moved to approve the minutes of the September 19, 2003 regular meeting.

Ms. Charlotte Borchert seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

3. Approval of Consent Schedule

Motion: Mr. Norman Miller moved to approve Refunds, Death Benefits, Retirements, System Transfers, and the Applications and Agreements with:

- Sunnyside Charter and Montessori School

Dr. Chuck Essigs seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding Proposed Rule Making for System Rules

Ms. Charlotte Borchert, Chairperson, Rules Committee, explained that the purpose for these rules is to establish a procedure for applying losses to System member's accounts or benefits, should the Fund experience real or actuarial losses. The authority for these rules is Arizona Session Laws 1995, Chapter 32, Section 24, as amended by Arizona Session Laws 1999, Chapter 66, Section 1.

Motion: Ms. Charlotte Borchert moved to approve the Notice of Proposed Rulemaking for the System Rules, Title 2, Chapter 8, Article 2 of the Arizona Administrative Code.

Mr. Steven Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding CB Richard Ellis' Yearly Management Review

Mr. Lawrence Trachtenberg joined the meeting at 8:45 a.m.

Mr. Jerry Roberts, Senior Vice President, and Ms. Jane Simpson, Senior Real Estate Manager, presented on behalf of CB Richard Ellis. CB Richard Ellis provides property management, leasing, and marketing of capital and tenant improvements for the 3300 Tower property in Phoenix and the Broadway Proper property in Tucson and have done so since June 2000.

Property	<u>3300 Tower</u>	<u>Broadway Proper</u>
City:	Phoenix, Arizona	Tucson, Arizona
Total Square Fee:	363,655	53,450
Occupancy as of 6/30/03:	82.63%	75.24%
Occupancy of Sub-Market as of 6/30/03:	74.50%	88.39%
Occupancy of Overall Market:	80.60%	87.02%
ASRS Occupancy:	22.85%	10.83%

CB Richard Ellis' absolute performance is as follows:

<u>Property</u>	<u>Quarter Ending 6/30/03</u>	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>	<u>Since Inception</u>
3300 Tower	1.06%	8.57%	-6.09%	1.25%	5.21%*
Broadway Proper	.06%	.69%	12.90%	15.33%	6.52%**

*8/23/92

**12/31/95

6. Director's Report

Mr. Paul Matson, Director, updated the Board with respect to five outstanding Requests for Proposals (RFP). The first RFP is for a real estate consultant. The ASRS had four respondents to this RFP. The Investment Review Committee and ASRS staff are in the due diligence phase of this process. This process should be completed in time for a recommendation at the November 21, 2003 Board meeting.

The ASRS received seven responses to the investment consultant RFP. The finalist list will be discussed on October 22, 2003, at the Investment Consultant Evaluation Committee meeting. The objective is to have a recommendation to the Board at the November 21, 2003 Board meeting.

The actuarial audit RFP is underway and responses are due to the ASRS by October 23, 2003. This process will likely be completed for recommendation at the ASRS Board's December 19, 2003 meeting.

The ASRS has another outstanding RFP for a financial management system. The scope of work for this RFP has been created and issued. The due date for responses is October 31, 2003.

Finally, the proposals for the document imaging project have been received and are currently under review. These proposals will have to be reviewed in great detail, therefore, Mr. Matson did not identify a specific date for completion.

Mr. Matson explained that a three-person team has been designated consisting of ASRS staff who have been tasked with reviewing efficiencies in this agency along with equities in the ASRS' benefit structures. This team will look at issues such as methods of implementing benefits, cost of benefits, and equitableness. Mr. Matson expects recommendations to be brought to the ASRS Board in December.

Mr. Matson provided a Fund status to the Board. He stated that as of October 13, 2003, the Fund is up to \$19.8 billion. Over the last three and a half months, the ASRS has had a rate-of-return of 7.6%. The ASRS is on track to reach the target 8% annual rate-of-return.

Mr. Matson provided an update with respect to Maricopa Association of Governments (MAG). MAG requested that they be considered as an Employer under the ASRS. On June 30, 2003, Mr. Matson requested a formal Arizona Attorney General Opinion regarding this issue. At present, the ASRS has not received this opinion but expects to receive it by the end of the month. Once received, Mr. Matson will disseminate the Opinion to the Board.

Mr. Matson asked Mr. Karl Polen, Chairman, if he could add an agenda item for the next Board meeting pertaining to the Open Meeting Law. An expert from the Arizona Attorney General's office will present on the topic and provide up-to-date information regarding this law.

Mr. Matson provided an update with respect to the financial statements. An opinion from the ASRS' auditors, Deloitte & Touche is expected approximately mid-November. The final annual report is expected to be printed in mid-December for review at the Board's December 19, 2003 meeting.

Mr. Matson provided an update regarding the Experience Study and the Actuarial Valuation. The Experience Study must be completed every five years and the current study is for the period ending June 30, 2002. Mr. Matson projected that the Experience Study along with the Actuarial Valuation will be ready for presentation at the November 21, 2003 Board meeting.

With regard to health insurance, Mr. Matson stated that Watson Wyatt was retained to replace The Segal Company as consultant. Watson Wyatt has received all pertinent files from ASRS staff and The Segal Company and has met with appropriate ASRS staff.

With regard to the Governance Study, Mr. Matson stated that by now all Board members should have received a draft report from Mercer on governance. The first meeting to formally talk about this issue has been scheduled for Monday, November 3, 2003.

Mr. Matson provided an update regarding the Supplemental Retirement Savings Plan (SRSP). Earlier this week, ASRS staff met with TIAA-CREF, the firm that was contracted to administer this plan. TIAA-CREF provided a presentation on how this plan would be presented to employees and provided an update on where they are on various training issues. To date, the requested Private Letter Ruling has not been received from the Internal Revenue Service. Upon receipt of this ruling, the informational process of communicating this plan to employees will begin.

Mr. Norman Miller asked about utilization of ASRS resources for creating another system such as the SRSP. Has this issue been discussed with ASRS counsel to forego any challenges that may be raised by members of this System? Mr. Matson responded that he will formalize Legal Counsel's position on this issue.

7. Request for Agenda Items

Mr. Miller requested information pertaining to potential fraud and loss of money from the System. Mr. Miller expects that Legal Counsel would put together a process that will detect such.

Additionally, Mr. Miller requested any proposed legislation for the 2004 Legislative Session be provided to him. Mr. Polen suggested that this be listed as an informational agenda item for the next Board meeting.

8. Call to the Public

Mr. Ube Fink asked if more rules could be considered pertaining to reporting requirements with respect to the System financial status. This would include an annual reporting of total assets and market value of the System, the guaranteed and non-guaranteed liabilities, the number of retirees, the average age of the retirees, and each member's present value.

9. The next ASRS Board meeting is scheduled for Friday, November 21, 2003, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

10. Adjournment of the ASRS Board.

Mr. Karl Polen, Chairman, adjourned the October 17, 2003, meeting of the ASRS Board at 9:30 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Marina Chaves, Secretary

Date

Paul Matson, Director

Date